THE BOULOS COMPANY

2022

GREATER PORTLAND
MARKET OUTLOOK

A MESSAGE FROM OUR MANAGING DIRECTOR

DREW SIGFRIDSON
SIOR, Managing Director and Partner

2021: A PIVOTAL YEAR

What will 2021 be remembered for? COVID-19 and the Delta variant? Masks vs. no masks? Vaccine or no vaccine? Record fast distribution of vaccines for those who wanted it? The year that the validity of our elections was questioned? The U.S. Capitol stormed? The withdrawal from Afghanistan after the 20-year anniversary of 9/11? Tom Brady winning a 7th ring? Climate change and Earth's warming? Major weather disasters throughout the world? Massive gains in the stock market? Record high deficits? Supply chain breakdown? Significant dead-lock in the political dialogue between Republicans and Democrats and massive social movements related to Black Lives Matter? What is the result of all of this noise and upheaval in the back-drop of "our normal lives" in which we are raising families, going to work, going to school, helping our neighbors, and working to make a living? In one word: stress. At this point, 2021 may be remembered as a time of significant stress, angst, and anxiety.

Despite all of these social, economic, climate, pandemic, and governmental factors creating significant risks and disruptions, the Maine economy continues to be strong. Our state boasts record low unemployment, significant population growth, record high increases in real estate pricing and sales volume, stable and appreciating lease rates, and low vacancy rates. The year 2021 was a pivotal year for Maine with an influx of people and businesses relocating out of nearby urban environments or other areas experiencing severe droughts and wildfires. We expect that this trend will continue, and that the remote workforce environment will have a profound impact on our state for many years to come.

Last year, I mentioned the "silver lining" in certain sectors, the growth of certain industries, and the significant influx of people migrating to Maine and investing here. These trends have only accelerated in 2021 and will continue to accelerate in 2022. There is significant demand for affordable housing, market-rate housing, warehousing and distribution facilities, hospitality, entertainment venues, education and research facilities, manufacturing, etc. Developers are pushing to construct and renovate commercial properties to accommodate the growth in all of these sectors. In some areas, the growth and demand has been unprecedented. For instance, at The Downs in Scarborough, we sold all of the industrial lots for the entire Innovation District in just two years. Flex buildings constructed on speculation have filled pre-construction. Hotels just recently constructed in Portland have sold to private equity firms at record numbers. Demand from investment groups historically focused on "core" markets are now interested in focusing their attention on – and making investments in – Maine. For some high-quality assets, we are dipping into record pricing based on all metrics: price per square foot, price per unit, cap rates, and dollars per acre.

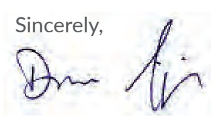
Institutional investments are also being made in a significant way, which will change the landscape of Greater Portland. The Roux Institute at Northeastern University has announced the purchase of the B&M Bean plant on the ocean in Portland, the University of Maine Law School and Graduate & Professional Center and graduate school is moving to 300 Fore Street in downtown Portland, Maine Medical Center has completed its $150 MM capital campaign, and construction is underway for its new wing on Congress Street. Northern Light Mercy Hospital completed its move off of State Street down to Fore River Parkway and the Gulf of Maine Research Institute completed its purchase of Union Wharf and will continue to expand and preserve the working waterfront of Portland. These are just a few of the many significant investments underway by local organizations.

OPPORTUNITIES ABOUND

New housing construction, and particularly affordable housing and workforce housing, are going to be a major focus for developers in Greater Portland for the next 2-3 years. We have a significant shortage of quality affordable housing, making for great development opportunities going forward. The other significant demand throughout the state comes from warehousing, distribution, and manufacturing companies for industrial and flex product. We continue to see more development underway in this market sector, but constraints bounded by permitting and high construction costs will limit the timing and ability for developers to meet market demand.

Despite the difficulties of the pandemic and the stress on our society, we continue to see tremendous resilience and perseverance in the real estate and construction industries. We sincerely thank all of our clients, vendors, and members of our team for their extraordinary efforts over the past year. While there has been stress, we have also worked to focus on teamwork, camaraderie, and flexibility in the workplace environment. My partners and I are appreciative of their efforts every day. I also want to personally welcome our new brokers, associates, and marketing professionals who joined our team over the past year in our Portland, Portsmouth, and recently opened Manchester, NH office. Our company has benefited from an influx of talent moving to Maine, and we hired several new people with commercial experience from New York, Washington DC, Manchester, NH and even Jackson Hole, WY. We look forward to 2022 with our growing team and will work to provide our clients with the best possible service and professionalism each and every day.

Sincerely,



Drew Sigfridson, SIOR

The BOULOS Beat

Hosted by Greg Boulos and various guest-hosts, The Boulos Beat podcast explores Maine's commercial real estate world through in-depth interviews with its movers, shakers, and business leaders.

Thank you to our guests for sharing their incredible stories:

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Episode 15: Bill Stauffer
Episode 16: Jonathan Cohen
Episode 17: Josh Benthien
Episode 18: Tom Watson
Episode 19: Melissa Smith
Episode 20: Josh Broder
Episode 21: Tony McDonald
Episode 22: David Shaw
Episode 23: David Shaw (Cont.)
Episode 24: Jean Hoffman

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Corey Templeton

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OFFICE MARKET OUTLOOK

NATE STEVENS *Partner, Broker*

The Greater Portland Office Market has remained resilient over the past couple years, as evidenced in our survey last year. We had all hoped for a return to some normalcy in the office market in 2021, but as the pandemic continues, so does the uncertainty of its impact on office space. Here at The Boulos Company, we didn't know what to expect from our annual Office Market Survey this year. How were office occupiers, large and small, going to use their offices in 2021? Did they still even need them at all? Through our COVID Office Impact Surveys, we found that, yes, offices are still needed, and the data pulled in our 2021 Greater Portland Office Market Survey supports that. The question went from "Do we need our office?" to "How do we use our office?" Despite a 2020 plagued by uncertainty and change, the market proved surprisingly strong and, while demand has stayed moderately low, vacancy rates were kept in check this past year.

As of December 1, 2021, the direct vacancy rate fell to 6.73% across the entire Greater Portland market. This is down slightly from 6.97% in 2020 and shows that, despite the ongoing pandemic and reevaluation of the office space, there was not much movement in the direct rate – a surprise to many. However, what was anticipated was a continued increase in sublease space being offered. This rate increased from 1.73% in 2020 to 2.70% in 2021 with 125,000± SF of sublease space added over the previous year. This increase in the sublease rate pushed the total vacancy rate to 9.42% in 2021, an increase from a total rate of 8.70% in 2020.

DOWNTOWN

After a spike in the overall downtown vacancy rate in 2020, rates rebounded in 2021. The direct vacancy rate for both Class A and Class B markets fell to a collective 8.61%. This is still the highest rate since 2013, but nowhere near the height of the downtown vacancy rate of 13.96% in 2011. The sublease rate remained relatively unchanged from the year prior. The downtown Class A market, which had a direct vacancy rate of just 0.61% only a couple years ago, fell from 6.60% in 2020 to 5.02% in 2021. This is largely due to one significant transaction, as the University of Maine leased 61,000± SF of vacant office space for The School of Law and Maine Graduate & Professional Center. This market is also poised for continued growth with the new Covetrus and Sun Life buildings slated to open in 2022.

Along with the Class A market, the downtown Class B vacancy rate also dropped, falling from 13.32% in 2020 to 12.29% in 2021. No large leases were signed in this market to push the rate lower, however, the drop can be attributed to numerous smaller transactions and a trend in Class B buildings being converted from vacant office space to residential and hospitality uses. Over the last half decade, close to 200,000 square feet of Class B office space, much of it vacant, has been removed from our survey.

SUBURBAN

While the overall and downtown markets experienced a drop in the direct vacancy rates, suburban Class A and Class B rates increased slightly from 6.29% up to 6.67%. This remains a healthy rate compared to years past, lower than any year from 2009 until 2014 during the Great Recession. The suburban markets consist of South Portland, Scarborough, Maine Mall Area, Westbrook, and Falmouth/Cumberland/Yarmouth. There was an increase in vacancy at some level across all submarkets except for Class A properties in the Maine Mall area and Class B properties in the Falmouth/Cumberland/Yarmouth market.

Despite the overall increase in suburban rates, Class A properties had a decrease in the vacancies from 7.04% down to 6.57%. This was largely driven by significant transactions in the Maine Mall area, especially the leasing of 34,000± SF at 65 Gannett Drive and 31,000± SF at 225 Gorham Road. However, the aforementioned increase in sublease space on the market is almost entirely concentrated in the Maine Mall area, with considerable vacancies on the horizon in this market over the next three years. This may have a sizable effect on vacancy rates, given the current demand for office space in these markets.

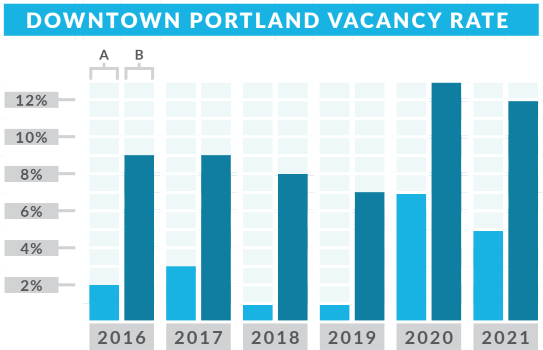
The suburban Class B vacancy rate saw one of the largest changes in any market. The vacancy rate rose to 6.85%, up from 4.84% in 2020, and serving as the driver behind the increase of suburban rates overall. Once again, the influence behind this change was concentrated in the Maine Mall area, as the Class B rate in this submarket increased from just 3.86% to 11.95% over the past 12 months. Most other Class B submarkets experienced an increase in vacancy rates, although most were relatively minor.

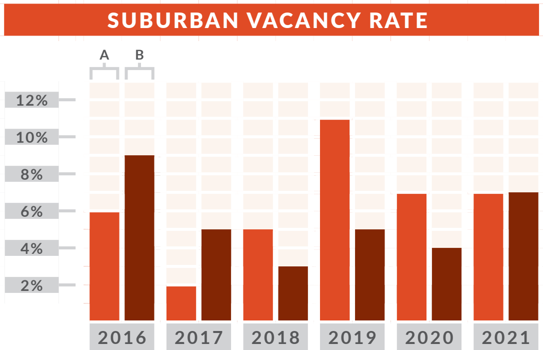
MEDICAL

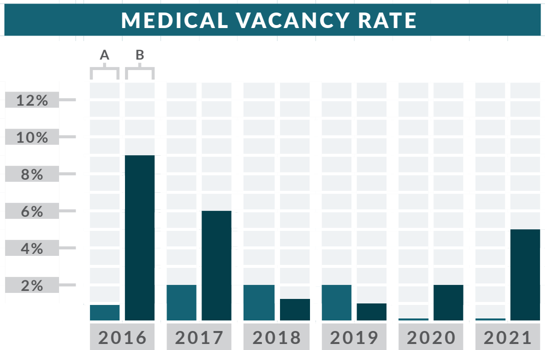
Despite the pandemic, medical office space rates remain historically low, although there was a slight increase in this submarket for the first time in several years. This increase was from just 0.52% in 2020 to 1.11% in 2021, still an extremely low rate in a market that experiences very little turnover. Added to the survey this year was 92 Campus Drive, a 108,000± SF medical building on the MaineHealth campus in Scarborough. The 62,000± SF VA outpatient clinic on Commercial Street will be occupied in the early part of 2022 and will be included in next year's survey.

FORECAST

Last year's forecast was not easy, and this past year did not make the future much clearer. We were right in assuming that there would not be a snap back to pre-pandemic rates and that the overall market may remain relatively unchanged. For 2022, we may experience much of the same, as the office market is still in flux. The pandemic may eventually have a more significant impact on the market, but we did not see it this year, and there are no obvious signs to a mass exodus of office space. While the amount of sublease space on the market is concerning, it is unlikely that this will have a major effect over the next 12 months. Additionally, there are several transactions underway that will only improve the overall rates. A return of demand for office space is important to market absorption, and the recovery has proved slower than initially anticipated. However, over the past two years, we have all learned to adapt – the office market is no different.







2021 VACANCY RATE SUMMARY

LOCATION	CLASSIFICATION	TOTAL RENTABLE 2021	AVAILABLE SF 2020	VACANCY RATE 2020	AVAILABLE SF 2021	VACANCY RATE 2021	SUBLEASE 2021
DOWNTOWN PORTLAND	CLASS A	2,181,770	144,893	6.60%	109,447	5.02%	73,690
	CLASS B	2,123,049	284,900	13.32%	260,985	12.29%	21,951
	SUBTOTAL	4,304,819	429,793	9.92%	370,432	8.61%	95,641
SUBURBAN PORTLAND	CLASS A	993,744	97,421	9.81%	121,845	12.26%	-
	CLASS B	932,314	69,639	7.47%	72,947	7.82%	3,225
	SUBTOTAL	1,926,058	167,060	8.68%	194,792	10.11%	3,225
FALMOUTH, CUMBERLAND, YARMOUTH	CLASS A	851,150	10,398	1.30%	40,917	4.81%	-
	CLASS B	238,039	15,602	6.55%	13,658	5.74%	-
	SUBTOTAL	1,089,189	26,000	2.51%	54,575	5.01%	-
WESTBROOK	CLASS A	544,923	-	0.00%	5,700	1.05%	-
	CLASS B	212,661	11,000	5.17%	12,638	5.94%	-
	SUBTOTAL	757,584	11,000	1.50%	18,338	2.42%	-
MAINE MALL AREA	CLASS A	1,652,682	179,637	10.87%	96,296	5.83%	228,273
	CLASS B	385,290	14,869	3.86%	46,040	11.95%	-
	SUBTOTAL	2,037,972	194,506	9.54%	142,336	6.98%	228,273
SCARBOROUGH, SOUTH PORTLAND	CLASS A	436,915	21,299	5.10%	29,687	6.79%	-
	CLASS B	526,264	-	0.00%	11,808	2.24%	-
	SUBTOTAL	963,179	21,299	2.26%	41,495	4.31%	-
ALL SUBURBAN MARKETS	CLASS A SUBURBAN TOTAL	4,479,414	308,755	7.04%	294,445	6.57%	228,273
	CLASS B SUBURBAN TOTAL	2,294,568	111,110	4.84%	157,091	6.85%	3,225
	SUBTOTAL	6,773,982	419,865	6.29%	451,536	6.67%	231,498
MEDICAL	CLASS A	1,100,925	-	0.00%	1,650	0.15%	8,667
	CLASS B	267,304	6,572	2.41%	13,545	5.07%	-
	SUBTOTAL	1,368,229	6,572	0.52%	15,195	1.11%	8,667
Class A Downtown, Suburban & Medical		7,762,109	453,648	5.99%	405,542	5.22%	310,630
Class B Downtown, Suburban & Medical		4,684,921	402,582	8.55%	431,621	9.21%	25,176
Total Office Space and Vacancy - Direct Lease		12,447,030	837,163	6.97%	837,163	6.73%	335,806
SUBLEASE SPACE		12,447,030	212,276	1.73%	335,806	2.70%	-
TOTALS		12,447,030	1,068,506	8.70%	1,172,969	9.42%	335,806

All data represented as of December 1, 2021.

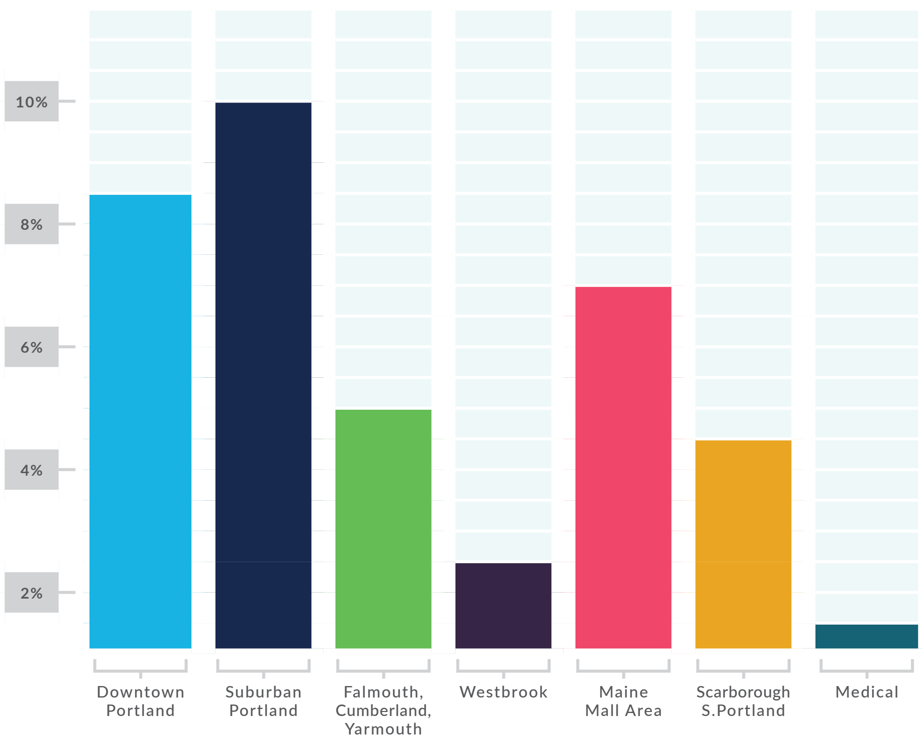
ABSORPTION - TOTAL SQFT OCCUPIED

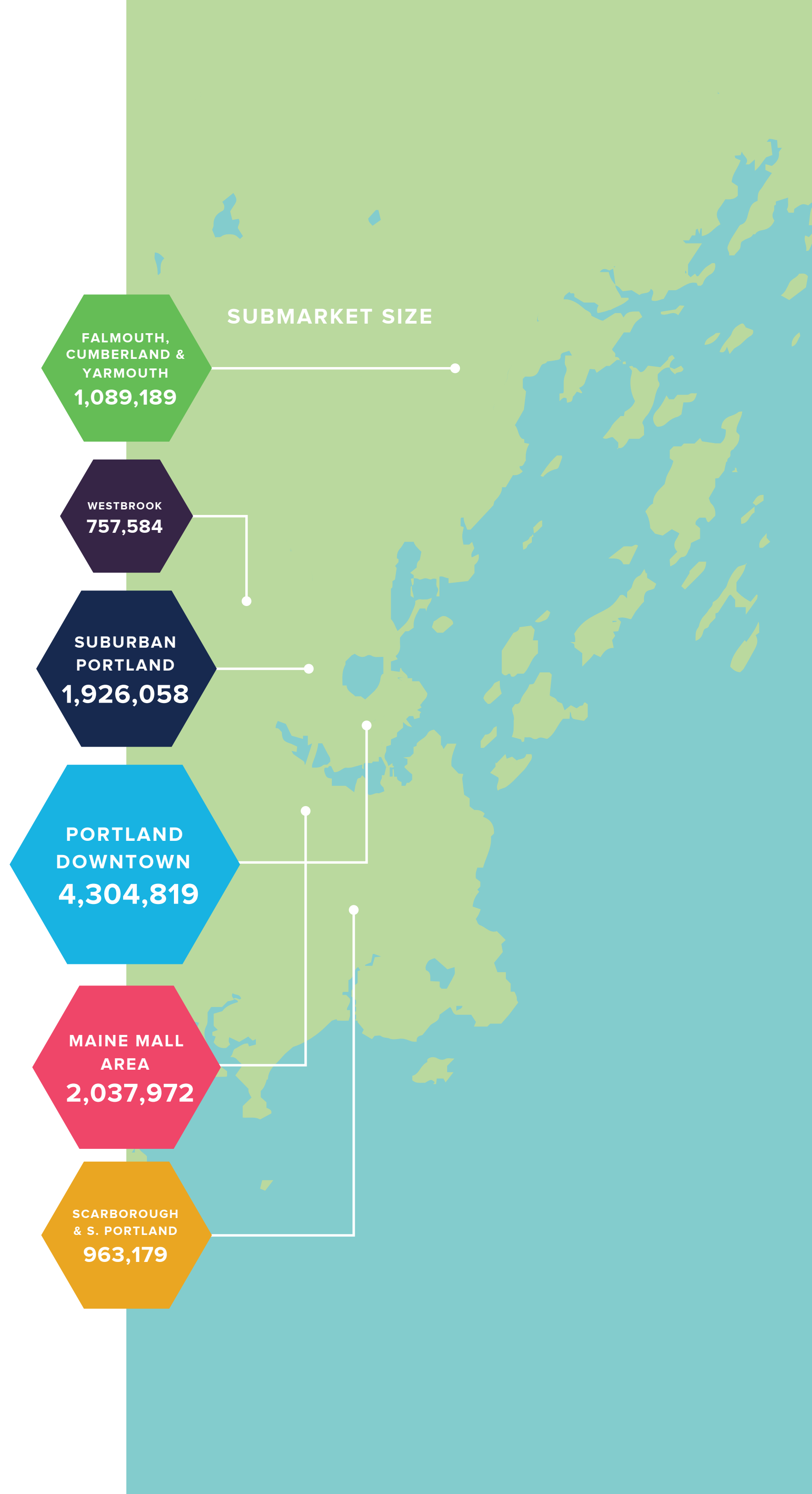
12.1.2020
12,278,887

12.1.2021
12,447,030

168,143
SINCE 2020

2021 TOTAL VACANCY RATES





DOWNTOWN PORTLAND CLASS A SPACE AND ASKING RATES

	ONE CANAL PLAZA	TWO CANAL PLAZA	THREE CANAL PLAZA	ONE CITY CENTER	TWO CITY CENTER	145 COMMERCIAL STREET	254 COMMERCIAL STREET	511 CONGRESS STREET	7 CUSTOM HOUSE STREET	100 FORE STREET	280 FORE STREET	300 FORE STREET	1 HANCOCK STREET
BUILDING SF	116,424	44,273	64,495	202,754	26,753	30,400	95,000	128,400	49,600	84,000	69,481	61,129	97,528
AVAILABLE SF	5,418	-	922	12,187	-	-	5,158	11,000	-	-	-	-	-
PRICE/SF MG	$31.45	-	$28.50	$23.50	-	-	$24.00	$20.00	-	-	-	-	-
OCCUPANCY	95.35%	100%	98.57%	93.99%	100%	100%	94.57%	91.43%	100%	100%	100%	100%	100%
SUBLEASE	7,536	-	-	-	-	-	-	-	-	-	7,253	-	-
FLOORS	10	4	6	13	5	3	5	9	5	7	5	6	4
BUILT	1970	1972	1980	1984	1985	2000	1900	1974	2000	2020	2004	2007	2018

54 MARGINAL WAY	63 MARGINAL WAY	84 MARGINAL WAY	16 MIDDLE STREET	100 MIDDLE EAST TOWER	100 MIDDLE WEST TOWER	130 MIDDLE STREET	ONE MONUMENT SQUARE	TWO MONUMENT SQUARE	25 PEARL STREET	27 PEARL STREET	ONE PORTLAND SQUARE	TWO PORTLAND SQUARE	TOTALS
50,989	34,000	102,804	42,152	106,149	99,600	32,000	114,400	119,442	32,000	46,767	186,230	145,000	**2,181,7700**
-	-	-	5,373	4,780	2,711	-	9,373	12,793	-	10,020	24,060	5,652	**109,447**
-	-	-	$26.00	$28.00	$28.00	-	$23.00	$22.00	-	$24.75	$28.00	$28.00	
100%	100%	100%	87.25%	95.50%	97.28%	100%	91.81%	89.29%	100%	78.57%	87.08%	96.10%	**94.98%**
-	-	-	5,373	38,367	2,490	-	12,671	-	-	-	-	-	**73,690**
5	4	10	5	7	7	4	10	9	3	4	10	7	
2002	2007	2008	2017	1986	1986	1981	1973	1980	1989	1971	1987	1990	

CAPITAL MARKETS OVERVIEW

CHRIS PASZYC *CCIM, SIOR, Partner, Broker*

GENERAL TRENDS

In last year's Market Outlook, we stated that given the savory ingredients of abundant liquidity, low cost of capital, wider yield spreads, and rebounding asset value appreciation, we expected investor appetites to acquire more commercial real estate (CRE) in 2021 to return to the insatiable pre-COVID levels, albeit with some sectors faring better than others. As of late 2021, this prediction has proved accurate, with a number of assets commanding multiple bids and trading at record low cap rates – especially in the industrial sector. However, the rapid surge of inflation is the specter of doom lurking as we cast our eye to 2022. How the monetary authorities respond will in part dictate whether CRE's unprecedented bull run will continue.

Often in these inflationary times, trade publications and cocktail parties are dominated by statements such as "real estate is a good hedge against inflation" and "inflation drives investors towards commercial real estate." While there is an element of truth in this sentiment, an investor should be wary in these volatile times and consider what makes the CRE investment appealing as opposed to other investment options available.

Simplified: high inflation rates typically cause the Federal Reserve System (Fed) to raise interest rates. When interest rates are higher, it becomes more expensive to borrow money. Many real estate investors use debt to purchase assets, and this increase in cost of debt can lead to decreased returns to the investor – thus depressing the price attainable by a seller, which results in a higher cap rate. However, the question today is whether the Fed views inflation as permanent. If it does the latter, you can expect a distinct rise in interest rates, which will impact CRE negatively in the short term (next 12-24 months).

Assuming a stable interest rate environment, inflation can benefit CRE owners if there is strong demand and lease structures favorable enough to take advantage of rising rental rates. However, inflationary pressures will impact performance on the operating expense side. Senior housing, assisted living/memory care, and hospitality are the most labor intensive sectors and impacted the most by surging inflation. Furthermore, multifamily and industrial generally tend to outperform on a risk-adjusted basis in an inflationary environment, as rents have been increasing and demand has stayed consistent.

The other variables that we need to consider as we forecast capital markets behavior are changes to trade policy, taxation, discretionary spending, housing, education, healthcare, and government regulation - all of which will impact commercial real estate. President Biden recently signed the $1.2 trillion infrastructure bill passed by Congress, with plans to push forward with an additional $2 trillion social spending bill. Within the American Families Plan, there is a proposal to limit 1031 "like-kind" exchanges commonly used by CRE investors to reinvest proceeds from the sale of real estate. The 1031 exchange accounts for 10% to 15% of annual CRE transactions, so we can expect a correlation in CRE transaction volume reduction should the exchange provision be modified or eliminated. It is interesting to note that we saw a flurry of activity in Q4 of 2021 with sellers motivated to close before end-of-year to avoid the unknown of tax policy in 2022.

Analyzing CBRE's US Capital Markets publication through Q3 of 2021, we saw that total capital markets investment volume in 2021 was up 19% year-over-year (YoY) and it was predicted that global investment volume would reach 23% by year end.

Despite the inflationary environment forecast for 2022, we expect the appetite to acquire commercial real estate to remain strong, albeit with some sectors faring better than others.

LOCAL TRENDS

Traditionally, Maine has been a stable market, somewhat resistant to the volatility that the rest of the country experiences. Employment statistics returned to pre-COVID normal and with inexpensive capital available, we expect steady demand for investment property statewide in 2022. While we expect that interest rates will increase moderately in 2022, cap rates will remain stable in most markets and sectors. Industrial and multifamily buildings continue to trade in the lowest cap rate range. We anticipate that long-term fixed debt and historically low rates will continue to be available in Q1 and Q2 of 2022. There also continues to be a steady mix of out-of-state capital and local buyers demanding product throughout the State of Maine. We have also seen a high level of interest in mixed retail-industrial properties that we expect to continue.

The Boulos Company facilitated more than $237 million in transactions on behalf of clients in 2021. Over $54 million of that volume represents investment sale transactions. The industrial sector alone accounted for over 22% of the total sale transaction volume at just under $28 million.

In conclusion, in the lead-up to year-end 2021, we are seeing a higher number of investors exploring disposition versus refinance scenarios than in years past. Therefore, we expect there to be more availability of investment product in 2022 than this past year. We expect robust activity in the first and second quarter, with investors capitalizing on late-cycle market dynamics. The Boulos Company looks forward to working with you to develop and execute your real estate strategy in 2022.

SIGNIFICANT SALE TRANSACTIONS

STREET NAME	CITY	SALE PRICE	SIZE (SF)	CAP RATE (%)
158 Fore Street	Portland	$66,800,000	103,898	DND
84 Marginal Way	Portland	$37,800,000	107,228	DND
198 Maine Mall Road	South Portland	$20,000,000	112,976	DND
5 Davis Farm Road	Portland	$11,750,000	80,683	11.49%
178 Middle Street & 4 Canal Plaza	Portland	$11,700,000	68,705	7.50%
15 Lund Road	Saco	$6,000,000	83,322	8.60%
17 Foss Road	Lewiston	$4,575,840	38,132	7.25%
53 Darling Avenue	South Portland	$4,400,000	29,000	7.44%
269-279 Center Street	Auburn	$3,550,000	18,947	7.07%
30 Long Creek Drive	South Portland	$2,800,000	15,000	8.20%
275 US Route One	Cumberland	$2,750,000	16,168	8.25%

PHOTO *269-279 Center Street, Auburn.*

INDUSTRIAL MARKET OUTLOOK

JON RIZZO *Partner, Broker*

It is no surprise that we may sound like a broken record over the last two years as it relates to the industrial market. Extremely high demand coupled with historically low supply has created a rising tide for sale prices and lease rates across the United States. According to Cushman & Wakefield's U.S. National Industrial Q3 2021 market report, the year-over-year (YOY) rent growth in Q3 2021 increased 8.3% from Q3 2020. Analysts also believe that the rents will grow between 6% and 9% across most markets over the next couple of years.

We have seen record absorption in 2021 due to demand; and although construction costs have risen due to the increased price of steel and lack of labor in the market, new construction projects have not slowed down, as the demand needs to be met. According to Cushman & Wakefield market research, "The market absorbed 140.7 million square feet (msf) in Q3 2021…this brought the year-to-date (YTD) 2021 absorption total to 365.9 msf, 98.0% above the same period in 2020, and the most absorption ever recorded in a single year with another quarter still to come." Warehouse and distribution were the leading uses of the space that was absorbed, due to continued e-commerce demand and final mile needs to keep up with consumer sales. We saw this trend increase last year due to COVID-19, however, the change in overall consumer behavior seems to be here to stay, as companies have streamlined their e-commerce presence and made it easier for consumers to receive goods through an online ordering platform.

National and global supply chain issues have posed challenges to many companies, often affecting the end consumer – both businesses and individuals alike. While there are several factors that lead to these issues, we explore the current impact on the industrial real estate market and how those challenges will be faced in 2022.

Businesses are looking to streamline efficiencies – now more than ever – to keep up with demand and to deliver goods to their customers as fast as possible. Even if they have in-house logistics capabilities, these businesses also rely on third party logistics and shipping companies to help manage this process. While businesses typically do not like to have product sitting on the shelf, this mindset is changing, as delays in receiving product leads to delays in sales – ultimately resulting in a hit to revenue and the bottom line. Companies are looking to "stock up" in order to meet demand as orders are received. Due to the uncertainty of receiving additional product in the recently popular "lean warehousing" model, they are taking on more product and thus emphasizing the importance of warehousing needs. Does this mean an increased demand for warehousing and distribution uses in 2022? All evidence would suggest so.

Another issue being discussed on a national level is the bottleneck in port cities around the country. Product is arriving in the ports and sitting onsite for days or weeks. There is simply not enough industrial supply available to warehouse this product and distribute to the end user. What does this mean? Until additional inventory is made available (generally provided in the form of new construction), this will continue to be a problem, as it stalls the delivery of product due to a lack of efficient logistics. New construction may need to happen further outside of the "core" markets, thus widening the area in which industrial activity takes place. The hope here, in my opinion, is that it increases job opportunities and boosts the residential areas – and therefore the economy as a whole for a number of port markets across the country. From an industrial market standpoint, it also would indicate an increase in average lease rates, as new construction continues to be the only solution to solve for demand.

HOW DOES THIS RELATE TO THE MARKET HERE IN GREATER PORTLAND?

We are still in an extremely tight industrial market with vacancy rates hovering between 1.5% and 2% in Greater Portland and demand remaining strong. Demand for functional, efficient, and convenient (location, layout, etc.) space remains at an all-time high, especially among users looking for 5,000 square feet or less. Smaller "flex" units are getting absorbed incredibly quick, which is great for sellers and landlords, but is leaving many buyers and tenants frustrated at the pace at which available buildings and vacancies are scooped up. Consistent with national trends, this fast-paced activity continues to fuel increased sale prices and lease rates.

At this time last year, 43% of the light industrial lots in Phases 1 - 3 at the Innovation District at The Downs were under contract or sold. This equated to 23 lots of the 54 total lots available. To date, 100% of the lots are sold in all three phases of the project, with many buildings already complete, under construction, or in planning. Again, this type of absorption is unprecedented and follows the trend of new construction being the best (and perhaps only) option for end users.

WHAT IS THE OUTLOOK FOR 2022?

The vacancy rate will remain in the range that we have seen the last few years until new inventory can catch up to demand. Speculative development may increase, so long as construction costs do not prove to be too prohibitive to make developers/investors feel overly exposed to carrying cost and vacancy risk. While the average lease rate in the industrial sector has certainly increased over the last few years, one would think that there is a ceiling to these asking rates beyond which tenants will not find feasible. If demand for "flex" units remains high, we may see this development trend continue with this type of product.

The Greater Portland market has an opportunity to help address the supply chain and bottlenecking issues. Portland is certainly "on the map" as an extremely appealing city that provides a high quality of life. More residents relocating to the Portland area creates a higher demand for residential development, which in turn could create higher density in the Portland suburbs and increased business and economy. The e-commerce trend is here to stay, and therefore, final mile distribution centers become more important to these businesses providing product to the end consumer. More warehouse space will be needed based on both aforementioned factors. If we can be proactive in efficient planning and offerings of land or existing inventory to solve for this demand, we can avoid some of the pitfalls that larger markets have seen over the last 12 months.

The Greater Portland capital markets for industrial product will remain strong in 2022. As the market continues to grow due to strong demand, we may see an uptick in new capital from private equity groups and institutional investment groups who typically shied away from our "small" market in years past.

It is feeling more and more evident that the gap between "major markets" and the Greater Portland market is much smaller than it once was.

SIGNIFICANT INDUSTRIAL LEASE TRANSACTIONS

ADDRESS	TENANT	SQ FT	TYPE
56 Milliken Street, Portland	Paradigm Windows	109,589	Renewal
56 Milliken Street, Portland	Barber Foods	91,036	Renewal
7 Manson Libby Road, Scarborough	Confidential	68,818	Renewal
7 Washington Avenue, Scarborough	CHEP	60,000	New Lease
290 Presumpscott Street, Portland	Crown Equipment Corporation	39,900	New Lease

SIGNIFICANT INDUSTRIAL SALE TRANSACTIONS

ADDRESS	SALE PRICE	SQ FT	PRICE PSF	CAP RATE
300 Innovation Way, Scarborough	$7,000,000	24.6 (acres)	$284,553.00 (per acre)	N/A
238 Riverside Street, Portland	$5,400,000	55,170	$98.00	N/A
20 Morin Street, Biddeford	$4,975,000	46,295	$107.00	N/A
17 Foss Road, Lewiston	$4,400,000	36,207	$122.00	7.25%
147-151 St. John Street, Portland	$3,800,000	31,610	$120.00	N/A

SOUTHERN MAINE
CRE PREDICTIONS

JESSICA ESTES *Partner, Designated Broker*

Maine's economy has been unsettled over the past 20 months, much like the rest of the United States. But unlike the rest of the country, Maine, and more specifically, Cumberland and York Counties, have unique challenges and opportunities.

Coming economic shifts will impact commercial real estate, as the built environment adapts to changes in how we live, work, and play. Here are a few predictions for Southern Maine's commercial real estate market:

DOWNTOWN OFFICE

While the office market will continue to evolve and remain somewhat difficult to predict, we do not expect to see a staggeringly high vacancy rate, like in some larger cities—New York recently hit a 30-year high of 18.6% vacancy. In Boulos's recent "Where's Maine Working?" survey, released in September 2021, 49% of respondents reported that their companies were fully back to working in the office, compared to the national average of 33.6% (as reported by Bloomberg in October). On the bright side, we entered the pandemic with a 6% vacancy rate, and a certain amount of increased vacancy is actually healthy for the market, allowing businesses flexibility to meet their needs.

Demand for residential and hospitality space far exceeds demand for office space, and we expect some older office product will be converted to residential. In fact, there are already some high-profile conversion projects completed or underway in Portland.

LOGISTICS

Maine has long been regarded as the "end of the line" in shipping. That is going to evolve with climate change. Portland's port may become a lot more significant in the movement of goods globally, as industries reconfigure to increase the efficiency of getting products from manufacturers to consumers. The ports are not the only piece to this puzzle. Busy ports need warehouse space to store those goods until they are on their way to consumers. With industrial vacancy hovering between 1-2% percent, there is little availability. Shifting demographic patterns could be what ultimately sparks new additional industrial development beyond build-to-suit, but given geographic constraints, it will likely take place off the peninsula. Greater Portland communities with convenient access to I-95 could be the next hot markets.

EDUCATION

Portland is seeing some major investment in education, with three prominent projects announced this year:

- The Roux Institute at Northeastern's anticipated move to the B&M site will transform the look of the northern gateway to Portland with a $300 million investment.
- The University of New England is investing $70 million to bring its College of Osteopathic Medicine to the Stevens Avenue campus in Portland, where they will construct a new 110,000± SF center, bringing 500 students to the area.
- The University of Maine recently inked a lease to temporarily move its law school to the former CIEE headquarters building on Fore Street.

This is particularly exciting, as these educational hubs will bring additional investment diversity, as well as dynamic new companies to the area.

One of the biggest challenges faced by local companies is attracting and retaining talent. Most businesses with whom I have spoken in the past year have indicated that their biggest inhibitor to growth is the ability to hire new people. An influx of 35,000 new residents to Cumberland and York Counties is a good start – we need to embrace population growth to support business growth. That means additional housing, better public transportation, and more incentives for talented new transplants to work for Maine companies, rather than remotely for giant tech firms.

PHOTO *A rendering of the future home of The Roux Institute, originally published by The Portland Press Herald.*

PHOTO: *Bronson Guimond*

CENTRAL MAINE MARKET UPDATE

NICK LUCAS *Associate Broker*

CHRIS ROMANO *Operations Associate*

AUGUSTA

After a bumpy 2020, the second half of 2021 has seen a revived interest in the Augusta office market. In October, the Maine Department of Inland Fisheries and Wildlife (IFW) leased 43,000± SF of Class A office space at 353 Water Street. The transaction marked the largest office lease deal in Central Maine since the onset of the COVID-19 pandemic, and we anticipate another government entity will sign a lease in the 50,000 SF-range in 2022. We also expect the sale of a large, government-leased Class A office building in the coming year.

The IFW lease signals a big win for downtown Augusta. The office market is critical to the city's local economy. Office tenants, like state and medical employees, help drive day-to-day demand for restaurants, shops, and other businesses, which all make it an ideal location for the thousands of lobbyists, lawyers, and other state workers who travel there for work and want places to shop and dine. The office sector also provides many jobs for the construction industry, with the need for buildouts and renovations.

We have also seen activity in the industrial market, where there is high demand for product and limited available inventory. As a result of the low vacancy rate, several new construction projects have commenced. Sunbelt Rentals leased 12,000± SF of build-to-suit space at 53 Leighton Road, O&P Glass is constructing a 5,000± SF addition to their existing 28,000± SF facility, and J.S. McCarthy Printers will build a 13,000± SF addition to their existing 124,000± SF facility at 15 Darin Drive.

GARDINER

In Gardiner, activity continued in the new Libby Hill Business Park. PODS purchased land to build a 54,000± SF self-storage facility and Everett J. Prescott Inc. recently constructed a significant addition to their existing location. ChemStation purchased Lot 20 and plans to build a 10,000–20,000 SF facility, their first location in Maine. With the continued demand for industrial product, we anticipate the Libby Hill Business Park will continue to be a draw for new businesses and construction.

Additionally, the City of Gardiner reports that the Boys & Girls Club broke ground on their new $10 million facility, located at 14 Pray Street. The clubhouse will be on the same acreage as its current location and is scheduled to open in October 2022.

WATERVILLE

Over the past century, Waterville has undergone massive economic and social change. Like most former mill towns in Maine, the city's economy was hit hard after the closure of its mills. The population declined, infrastructure suffered, and the once bustling Main Street fell quiet. Over the past few years, millions of investment dollars have poured into Main Street, and redevelopment projects have reinvigorated the look and feel of the city. Led by Colby College, the public-private partners involved aim to transform downtown Waterville and return Main Street to a vibrant shopping and business district. This past year has seen a continuation of the trend, as some projects reached completion, some continued their progress, and others launched. These efforts to improve the city have been widely successful, making Waterville an emerging market for investors. The city is poised for continued growth in 2022 and beyond.

Recent high-profile investments in Waterville include:

- 173 Main Street – Home to CGI Consulting, a high-tech consulting firm with over 200 employees.
- The Concourse at 150 Main Street – A multi-million-dollar residential complex that hosts over 200 students, faculty, and staff of Colby College.

- The Lockwood Hotel at 9 Main Street – A 50-room hotel that also contains a meeting hall for 80–100 people, a bar, and Front & Main, an upscale farm-to-table restaurant.
- The Hathaway Creative Center – A redevelopment of the Hathaway Mill that houses MaineHealth and Cengage Learning, among others, as well as 67 loft-style apartment units.
- Waterville Creates!, in partnership with private and public benefactors, is constructing the $18 million Paul J. Schupf Art Center, expected to open in Fall 2022.
- 6 Water Street – North River Company plans to spend over $20 million to renovate half of the former Lockwood Mill into 65 apartments and several commercial units.
- Dirigo Labs received over $1 million to fund its new startup incubator and innovation hub slated to open in March.

SIGNIFICANT LEASE TRANSACTIONS

LOCATION	TRANSACTION
Shaw's Plaza, Augusta	Planet Fitness Leased 20,000± SF
53 Leighton Road, Augusta	Sunbelt Rentals Leased 12,000± SF of Build-To-Suit Industrial Space
353 Water Street, Augusta	Inland Fisheres & Wildlife Leased 43,000± SF of Class A Office Space
Augusta	An Undisclosed User Leased 14,200± SF

SIGNIFICANT SALE TRANSACTIONS

LOCATION	TRANSACTION
869 Western Ave, Manchester	19,360± SF Mixed-Use Building Sold for $1,625,000
16 Commerce Drive, Augusta	7,193± SF Class A Investment Property Sold for $1,200,000
1-3 Newhall Street & 28 Lawrence Ave, Fairfield	17-Unit Apartment Complex Sold for $935,000
267 Whitten Road, Hallowell	12,500± SF Flex Building Sold for $950,000

PHOTO *353 Water Street, Augusta, ME*

INDUSTRY SPOTLIGHT: HOSPITALITY

DEREK MILLER *Partner*

Maine's hospitality and tourism market generates an average of $11 billion annually and is one of the state's largest economic sectors. Portland is at the center of this sector as Maine's largest city and one of the state's biggest draws. Last year, I highlighted the pandemic-related challenges faced by Portland's bustling restaurant industry. Twelve months later, we will look at how restaurants met those challenges, while also zooming out to look at the city's hospitality industry as a whole, as well as that in Bar Harbor and beyond.

In December of 2020 there were approximately 20 retail locations comprising nearly 56,000 square feet available in downtown Portland – the most retail/restaurant space available in a decade. This was a daunting amount for landlords to have coming to market at once. Not all of that space was vacant at the time of the survey; however, the positive absorption over the past year has been surprising, even for someone as bullish as I was. A survey of available retail suites for downtown Portland shows that about half of that space has either been renewed by existing tenants or leased by new businesses.

The pivot to outdoor seating was an effective tool that many restaurants leaned on last winter and continue to offer. The city supported these efforts with temporary street closures, and by permanently closing Wharf and Dana Streets and a portion of Milk Street to vehicular traffic. Using some of the $46.3 million in federal funds from the American Rescue Plan, Portland hopes to renovate Wharf and Dana Streets to make them more pedestrian friendly. Improvements could include new pavers or cobblestones, and the city is exploring the idea of creating a small park on Dana Street.

Street closures are part of the city's Open Air Portland plan, which also allows restaurants to create "parklets" in former parking spaces. There are currently 37 parklets licensed in the city and Open Air Portland plans to make the program more accessible by eliminating the cap on the number and lowering fees.

Overall, the progress made by Portland's restaurant industry over the past year has been very promising. In many ways, it seems as though all the early ground lost to COVID-19 has been recovered. From a commercial real estate perspective, things are seemingly back to normal. According to tax records, spending at Maine hotels and restaurants topped $1.8 billion for the first six months of 2021, a 5% increase over 2019.

However, as the effects of the pandemic continue to ripple out, new challenges have emerged. Supply chain problems and a statewide labor shortage will be two of the biggest concerns for restaurant owners fortunate enough to have stayed open through the pandemic; the latter could be the biggest hurdle the sector faces going forward.

Portland's hotel industry, long a significant driver of new development downtown, is booming as well. Two new hotels opened in 2021; the Canopy by Hilton Portland Waterfront at 285 Commercial Street (home of the aforementioned Luna and Salt Yard) and Aloft Portland at 379 Commercial Street. Another, the 72,797± SF Cambria Portland Hotel, is currently under construction at 25 Hancock Street. These hotels join a host of newcomers over the past decade, including the Hyatt Place, The Press Hotel, the Courtyard by Marriott, and the AC Marriott, which sold in August for $66.8 million (approximately $375,000 per key) to Apple Hospitality REIT. This sale is a telling indicator of sector strength; Apple Hospitality is planning to double down on the Portland market, with an

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PHOTO: *Corey Templeton*

INDUSTRY SPOTLIGHT: HOSPITALITY (CONT.)

agreement in place to purchase the newly completed Aloft as well.

According to data provided by STR, revenue per available room (RevPar) for the Portland market improved by roughly 10% for June 2021, compared to the same month in 2019. That is telling, considering that the hospitality business in Maine as a whole had grown 11 straight years in a row, culminating in all-time records for revenue in 2019. Based on total room inventory (TRI), Portland had the highest August hotel occupancy rate in the country at 88%—14 points better than the national average.

Average daily rate (ADR) measures the average rental revenue earned for an occupied room per day—an extremely important metric for determining hotel performance. Multiplying ADR by the occupancy rate is what yields revenue per available room. In a recent survey of 30 hotel markets on the east coast, Bar Harbor ranked third and Portland fourth in terms of ADR ($376 and $354 per night respectively), trailing only Martha's Vineyard ($474/night) and Nantucket ($421/night). Conversely, Boston's hospitality market has been one of the country's hardest hit. Boston's RevPar for May 2021 was a shocking 67% lower than it was in May of 2019. A possible explanation for the disparity could be Boston's traditional reliance on business travel, while Portland's market is driven by tourism.

Perhaps Maine's most prominent destination is Acadia National Park. Through the first seven months of 2021, park visitors topped 1.9 million (up 10% from 2019). Traffic exceeding pre-pandemic levels is straining the park due to the same staffing issues that are plaguing the hospitality industry as whole.

The hospitality industry lost 13,000 workers nationally during the pandemic. Many of those workers moved on to jobs in other sectors. Across the country, 6.6% of all workers in accommodation and food services quit their jobs in September 2021 according to Morning Brew. Staffing shortages for hotels are not as plain to see as the restaurant industry but can result in measures such as closing rooms because they cannot be maintained, thereby limiting profitability. Staffing shortages in restaurants create longer wait times and back of the house issues, while at Acadia, park ranger posts sit vacant and other critical roles go unfilled.

All of these concerns led a nonprofit, HospitalityMaine, to release a plan called Dirigo Hospitality 2025. The ambitious plan is aimed at engaging Maine youth to highlight and foster job opportunities in the sector. It also aims to provide better training for current workers to help businesses function more efficiently with a slimmer workforce. By engaging Mainers at a younger age, the hospitality industry hopes to attract and retain more local talent and create a more resilient long-term workforce.

Staffing problems are not new to Maine. However, the somewhat unexpectedly swift return to "normalcy" in terms of visitors to the state has forced local businesses to do more with less. It is clear that Maine's business fundamentals continue to warrant further expansion within the sector in 2022; it will be interesting to see if operating inefficiencies will hamper how far and fast it can grow.

BARS/RESTAURANTS THAT HAVE OPENED IN THE PAST YEAR INCLUDE:

1. Jefe Juan's – 47 Wharf Street
2. Crispy Gai – 90 Exchange Street
3. Butcher Burger – 7 Union Street
4. Rathskeller – 51 Wharf Street
5. Wayside Tavern – 747 Congress Street
6. Cheese Louise – 363 Fore Street
7. Helm – 60 Thames Street
8. Luna and Salt Yard – 285 Commercial Street
9. CERA - One Monument Square

LEWISTON-AUBURN MARKET OVERVIEW

NOAH STEBBINS *Associate*

Developers, owner-users, tenants, and investors are beginning to view Lewiston-Auburn as the next area of the state poised for growth, as evidenced by rising lease rates and record sale prices – and in spite of soaring construction costs.

HOUSING DEVELOPMENT

Like in many areas throughout Maine, developers have taken notice of the housing shortage in Lewiston-Auburn. Over the past year, city officials have focused on increasing the housing stock through incentives and grants aimed to encourage new development. There are many new projects in the works or in the pipeline, as the city and developers work in unison to address the shortage.

In spring of 2021, Lewiston received a $30 million federal Choice Neighborhoods Implementation Grant, which is expected to leverage $100 million of additional development money, using tax credits and other sources. A large portion of the grant money will go to redeveloping multiple public housing sites in the Tree Streets neighborhood. Plans are in place to immediately replace 92 distressed units with 93 workforce and market rate units. Over the next few years, 185 new housing units will be built across three strategic sites, and nearly 1,500 lead-contaminated and older housing units will be replaced or rehabbed – a vital step to the city's long-term growth and sustainability.

Misty Parker, who serves as the city's economic development manager says, "Lewiston is the first city of its size to receive the grant, and we expect it to serve as a catalyst for increased investment in the Tree Streets neighborhood, through critical neighborhood improvements and services to residents living in the target housing units." Parker also noted that the grant money will focus on job training, education, and healthcare access aimed at improving the quality of life for neighborhood residents. As neighborhood dynamics evolve, I would keep a close eye on this area; the new development could lead to greater economic opportunity and increased property values.

In Auburn, city officials are working with developers to grow the housing crop through economic incentives. In early 2021, Mayor Jason Levesque called for 2,000 new homes to be built within the next five to seven years. Last spring, the city listed seven city-owned properties for sale with The Boulos Company. The information for which can be viewed at www.goauburn.me/properties-for-sale.

Projects that have been completed in 2021 include 48 Hampshire Street, a mixed-income 53-unit residential building, developed by the The Szanton Company, which opened in June of 2020. There are also 48 units under development by River's Edge Apartments at 273 North River Road and 204 Broad Street; along with Gracelawn Luxury Apartments, a 48-unit luxury apartment complex located at 10 Gracelawn Road. The owners are in the process of getting a Certificate of Occupancy for the final building of the development. The former St. Louis Church at 32 Dunn Street and the six vacant lots referenced above will spur further development, especially since projects that create a minimum of $2 million in assessable value with the district may be eligible for a credit enhancement to assist with development costs. Lastly, Auburn's planning board unanimously approved a new 128-unit housing development by A R Building Company on Mount Auburn Avenue, next to BJ's Wholesale Club. The four-story, two-building complex will feature a mix of one and two-bedroom units, a gym, pool, and in-unit laundry. Construction for the new complex will begin this winter or spring and will take between 24–36 months to complete.

According to Eric Cousens, Auburn's deputy director of economic and community development, the housing shortage, along with high rents and rising home sale prices, has prevented people from moving to the city. In response, the Auburn City Council has allocated $1 million toward downtown redevelopment projects, and the city is offering incentives to spur new development – including a maximum of $250,000 per project. As a result, a record number of permits were issued in 2021.

**Courtesy of the city of Auburn*

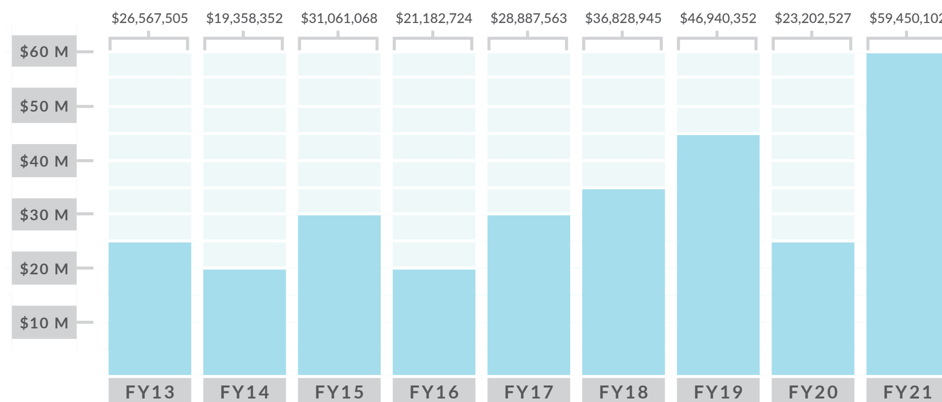
INDUSTRIAL

The demand for industrial space continues to outpace supply, with vacancy rates at historic lows. While the cost of new construction, exacerbated by supply chain issues, poses a challenge for owner-users and developers alike, there are a few notable new projects in the pipeline: a 64,800± SF industrial building at the Promenade Mall and a 48,000± SF industrial building on Gendron Drive in Lewiston. Additionally, Valley Beverage, located at 2075 S Lisbon Road in Lewiston, received approvals for a 33,000± SF addition, leading to continued job growth.

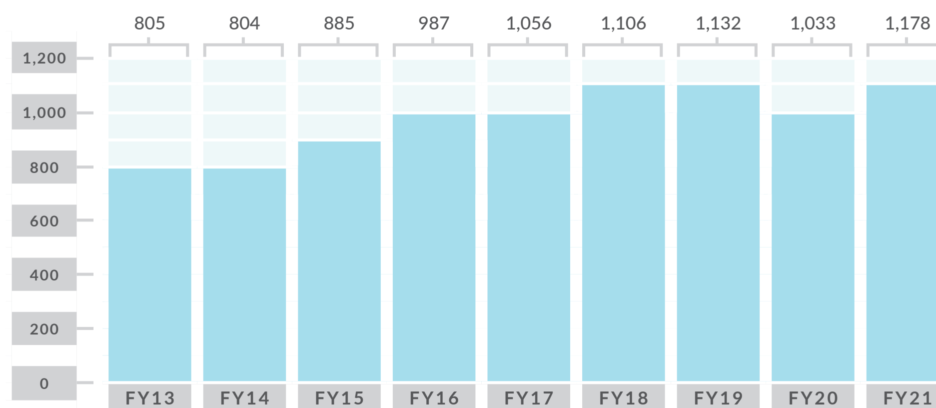
Notable projects under construction or in the pipeline in Auburn include Futureguard Building Products' 100,000± SF, $3.6 million expansion; the 14-building Mystique Way Cannabis Park; and N.S. Giles Foundations Inc.'s new 23,000± SF industrial building at 46 Wright's Landing, in which 3,584 – 5,640± SF is currently available

continued on page 24

EST. COST OF CONSTRUCTION - LAST 9 FY (JULY 1 - JUNE 30)



NUMBER OF PERMITS ISSUED - LAST 9 FY (JULY 1 - JUNE 30)



LEWISTON-AUBURN MARKET OVERVIEW (CONT.)

for lease with a completion date targeted for the beginning of 2022.

Lewiston-Auburn industrial lease rates have increased dramatically in the past few years. However, Greater Portland's industrial market is even tighter, and local landlords have not had any trouble filling vacancies, as companies continue to expand north. I suspect this trend will continue in the future as tenants compete amongst each other for the limited inventory on the market.

OFFICE

The office sector continues to feel the impact of the COVID-19 pandemic, as remote work is still up, and many companies question the need for a large office space. In Lewiston-Auburn, there are several large vacancies on the market. I predict the vacancy rate will grow as leases expire and more companies opt for smaller space requirements to cut costs, while continuing to have a physical presence. That said, the office market is by no means dead. As companies shift to hybrid work models, office spaces will continue to exist and serve different purposes, such as epicenters for collaboration and relationship-building.

Traditionally, coworking spaces have largely been associated with freelancers, entrepreneurs, and very small companies. However, on a national scale, an increasing number of larger companies have been renting coworking space for their employees in efforts to create a more agile workplace. The state recently announced a $200,000 grant program designed to create more coworking spaces to support entrepreneurship in Maine. According to Mainebiz, "The latest investment grant aims to expand access to coworking and collaborative workspaces throughout the state, ultimately producing a range of economic benefits." Coupled with large office vacancies throughout Lewiston-Auburn, I would expect additional coworking spaces to come online in the twin cities in the near future.

RETAIL

In 2019, Maine's last Kmart store, at 603 Center Street in Auburn, shut its doors, leaving yet another massive retail vacancy. Since Kmart's departure, Target proposed a $9.6 million renovation to the 105,000± SF space, which is expected to open in 2022. In fall of 2021, Staples opened a new Auburn location at 89 Union Street, a 23,748± SF space formerly occupied by OfficeMax. Staples left their 23,500± SF space at 855 Lisbon Street in Lewiston, providing a great opportunity for a large retailer looking to break into the Lewiston market. Construction was completed at the Auburn Marketplace, located at 1779 Washington Street South, which is directly adjacent to Exit 75. The Marketplace features 1,500± SF - 9,000± SF of retail/office space with Dunkin as the main co-tenant. Finally, the planning board approved a new Olive Garden for 649 Turner Street.

In summation, Lewiston-Auburn's year has not been entirely rosy – a handful of new projects that were in planning stages at the point of our mid-year outlook were scrapped due to construction costs. As costs remain high, it becomes harder to make new development projects financially viable. However, Lewiston-Auburn's pro-development environment continues to attract new projects to the pipeline, and I am excited to see what 2022 will bring.

PHOTO: *Ryan Donovan*

ECONOMIC IMPACTS
FROM COVID TRANSPLANTS

SASHA BOGDANOVICS

Associate

CLAIRE RICHARDSON

Associate

As with the year before, the past 12 months were largely characterized by profound change. The pandemic continued to shine a light on how we spend our time, what we spend it on, and, in many cases, where we spend it. For many seeking a better quality of life during the pandemic, Maine was at the top of the list. In the 2020 Atlas Van Lines Migration Patterns Study, the state ranked third in the country with an inbound move rate of 62.4%. Says Ashley Pringle of Maine & Co., a private nonprofit that provides services to businesses looking to relocate to Maine or expand within Maine, "We are tracking a trend of professionals looking to relocate from larger cities to enjoy a quieter and more pristine setting for their current remote jobs. Most of these transplants already have work but are now given the freedom to work from where they choose; and they are choosing the lifestyle and natural beauty that Maine has to offer."

PERCENTAGE OF OUT OF STATE HOME BUYERS:

2020: 35%
2019: 25%

For close to five years, Maine consistently tracked 75% in-state home buyers (with 25% being out-of-state or international buyers). However, since spring/summer of 2020, Maine has seen a rather dramatic increase to 35% of buyers coming from out of state. A sample of purchasers from July and August of 2021 shows that the majority came from Massachusetts, New Hampshire, and New York, with the notable outliers being Florida, California, and Connecticut.

While Portland and its surrounding cities are the target markets for most of those looking to become Maine residents, the Maine Association of Realtors' February housing report from 2020 to 2021 shows that York and Cumberland Counties reported two of the lowest increases in units sold but hold the highest average sale price. Demand, meet lack of supply. Sale prices are up, time on the market is down 25%–50%, and buyers are quick to waive inspections.

Some of this can be attributed to the current housing crisis Portland is facing. It is no secret that many Portland developments have slowed down, in part due to the Green New Deal and rent control referendums that have passed over recent years. As John Finegan mentions in his article, total units added to Portland's multifamily development pipeline decreased by 81.6% in 2021. This forces developers to look elsewhere, creating a huge opportunity for neighboring towns that may have otherwise been overlooked. In Brice O'Connor's piece, he discusses this phenomenon taking shape in communities outside of Portland in the form of Rock Row, The Downs, and the revitalization of Biddeford. Throughout the state, raw land sales increased by 47% from 2019 to 2020. Land purchases in Cumberland County alone increased by 33% from 2019 to 2020 and by 92% from 2019 to 2021.

Witnessing this growth and expansion is exciting. Despite the perceived effects of the housing shortage, many Maine business sectors are also experiencing labor shortages. To that end, organizations are offering incentives for students to stay in Maine, and major institutions are investing millions of dollars to enhance Maine campuses and promote local initiatives. Ashley Pringle believes that a majority of people who have decided to move to Maine and work remotely intend to call our state home for the long-term. This bodes well for attracting and retaining young working professionals.

According to Katie Shorey of Live & Work in Maine, a nonprofit that supports employment in the state, online engagement doubled between the start of 2020 and the start of 2021. Katie says, "Getting new talent and boomerangs to Maine is really important. We need more people to enter the workforce than what we are currently producing. When people come back, they bring good skills."

According to our research, many incoming residents are working in banking, insurance, science, and tech-related jobs throughout the state, many of whom are doing so remotely. While headquarters are often located elsewhere, this is not necessarily a bad thing. The remote worker has spending power. They are enjoying the restaurants, spending money in shops, renting a desk in coworking spaces, renovating their homes, and paying taxes. Further, while businesses prefer to remain nameless, we have seen several examples of a principal moving to Maine to take advantage of the remote lifestyle and subsequently moving into a brick-and-mortar office with more employees following in their path. With the rise of sophisticated professionals in Maine, we expect to see teams building locally and spurring demand for more collaborative office space.

** Maine Real Estate Information System, Inc. (d/b/a Maine Listings). Note: Maine Listings, a subsidiary of the Maine Association of REALTORS, is a statewide Multiple Listing Service with over 6,200 licensees inputting active and sold property listing data. Statistics reflect properties reported as sold in the system within the time periods indicated.*

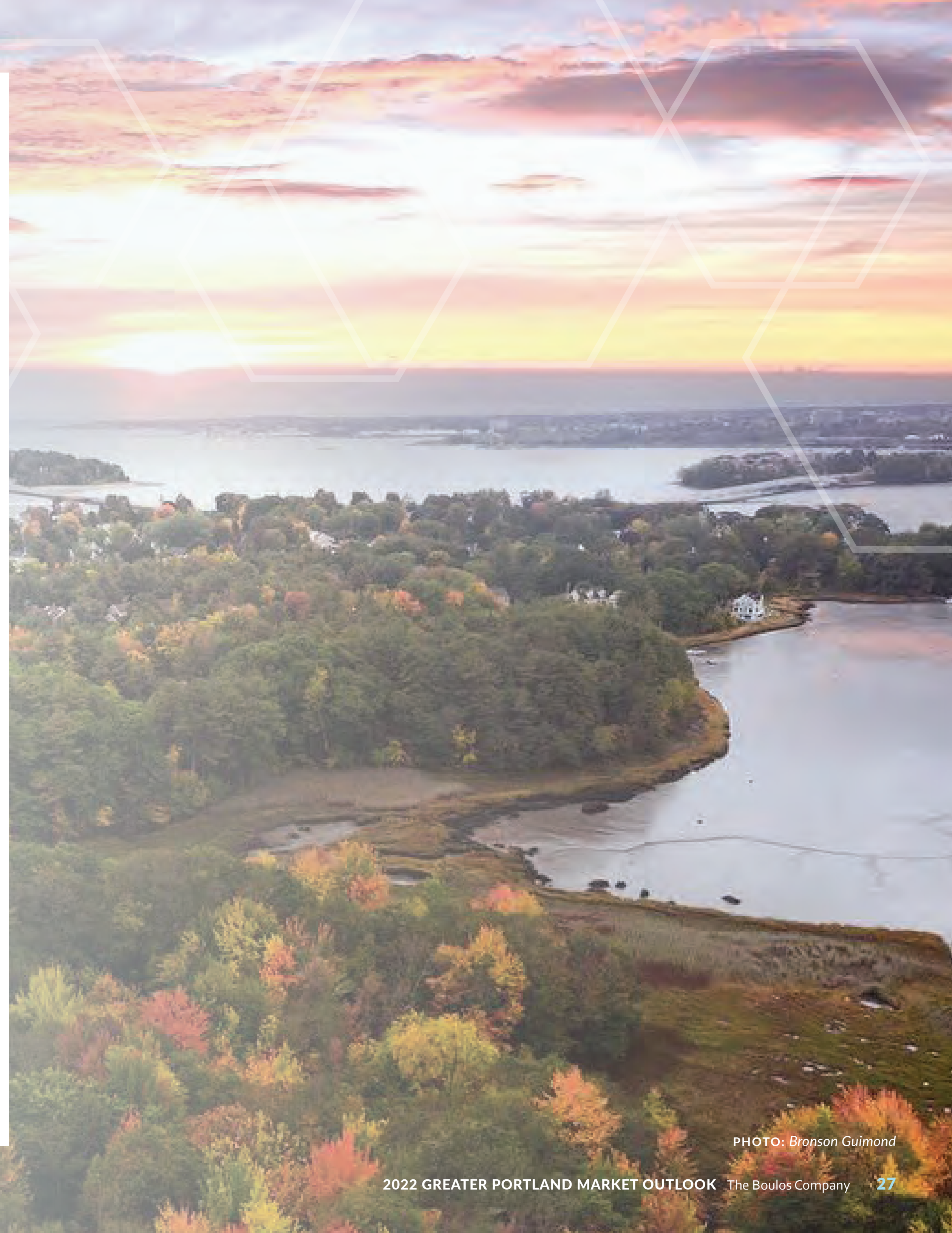


PHOTO: *Bronson Guimond*

MULTIFAMILY: THE EFFECTS OF PORTLAND'S INCLUSIONARY ZONING

JOHN FINEGAN *Associate*

In November 2020, Portland passed a significant new referendum for the city. Colloquially known as the "Green New Deal," the referendum primarily addressed energy efficiency standards on new construction, but also included a change to the inclusionary zoning (IZ) provision that exacerbated the already-strict affordable housing requirements around new development. It has been a year since that referendum went into law, and those changes to IZ have had a major impact on multifamily development in the City of Portland.

WHAT IS THE NEW INCLUSIONARY ZONING PROVISION?

- Any 10+ unit of new construction, substantial rehab, adaptive reuse, or conversion from nonresidential to residential is subject to the new IZ provision.
- 25% of newly constructed units must be "workforce units," defined as affordable for households that earn 80% of AMI (area median income). Passage of the referendum amended the ordinance, which previously required 10% of new units to be workforce units and defined workforce units as affordable for households that earn 100% of AMI.
- Workforce units must be integrated with the rest of the development. They must use a common entrance and must provide no indication from common areas delineating them from market rate units. In other words: they must be under one roof and cannot have a "poor door."
- Developers can choose to pay $150,000 per workforce unit to the city as an alternative to providing workforce units, known as a fee-in-lieu.
- Maximum affordable rent must include electricity, heat, hot water, cooking energy, sewer, water, and trash collection. The current maximum affordable rents for workforce units are:
    - Studio: $1,189/month
    - One-bedroom household: $1,398/month
    - Two-bedroom household: $1,598/month
    - Three- bedroom household: $1,798/month
    - Four- bedroom household: $1,997/month
- Reduced term of affordability for units from 99 years to 30 years.
- Reduced development fees by 25%.
- Reduced building permit fees.
- Projects in applicable zones are eligible for density and height bonuses.

HOW HAS IT PLAYED OUT SO FAR?

Multifamily developments take years from conception to completion, so we will see construction well into 2022. Behind the scenes, however, the pipeline for new projects has shrunk considerably since the new IZ provision passed. According to Christine Grimando, Director of the City of Portland's Department of Planning & Urban Development, projects are subject to the new IZ provision once they have been to a planning board workshop or meeting (at which point they are considered "on the books"). In 2020, prior to the new IZ provision, 756 units were put on the books. Since passing the IZ provision (at the time of writing this article), only 139 units have been put on the books across three projects—a decrease of 81.6%.

NUMBER OF MULTIFAMILY UNITS SUBMITTED TO PLANNING BOARD:

PRE-IZ PROVISION:
756

POST IZ PROVISION:
139

Winchester Woods is a development project made up of four 12-unit buildings on Sherwood Street in East Deering. As of November 30, 2021, it is the only multifamily project approved by the planning board under the new 80/25% IZ provision. The developer, Kevin O'Rourke, acquired the land at a low price and was able to obtain a 25% density bonus. The land was cheap because it was impacted by a utility easement and a 50-foot right-of-way for a paper street around which the buildings ad had to be designed. This perceived hair on the deal had scared off other developers and driven the price down. O'Rourke spent significant money on legal and civil engineering due diligence before moving forward to make sure a development was possible. The 25% density bonus he received increased the number of allowable units from 38 to 48.

This was a "needle in a haystack" deal, as O'Rourke described it. If the land had not been cheap, and if the density bonus had not been granted, the project would not have happened. These kinds of deals are rare; they take creativity, risk tolerance, time, and money. The new IZ provisions have not stopped new multifamily development in its tracks, but they have made it very difficult, and they are having a noticeable negative impact on the housing being built in Portland, a city hungry for housing.

Per Christine Grimando, another strategy deployed by developers to skirt the new IZ provision is to reduce the scope of their projects. For example, one multifamily project originally slated for 20+ units is being redesigned as a nine-unit project, just below the threshold that triggers IZ. This trend is resulting in less housing overall and no additional affordable housing being built in Portland. Other developers are actively working with the city, trying to find ways to bring forward housing proposals that can meet the current requirements. Unfortunately, most are finding it difficult to make the projects financially viable.

HOW WILL IT PLAY OUT IN THE FUTURE?

As O'Rourke points out, new deals that meet the 80/25% requirement will be few and far between. In fact, the new requirements will likely reduce the number of both new workforce and market rate housing units in Portland. It is likely we will see an increase in smaller condo and apartment buildings where a larger multifamily might have otherwise been the highest and best use.

For 10+ unit developments, there are two viable routes: traditional workforce housing and luxury units. Traditional workforce housing, which use subsidies in their capital stack, and which would have already met the new IZ provision, will continue to be developed unhindered by the new IZ ordinance. Luxury units can be more profitable because the $150,000 fee-in-lieu remains flat, regardless of the quality or sale value of the unit.

Portland has commanded the lion's share of multifamily developers' attention in Maine over the last two decades. Neighboring towns like South Portland, Biddeford, and Westbrook are going through renaissance moments of their own now, and these new IZ provisions may disperse some of the cash and intellectual capital that has had its eye on Portland. There is currently a 336-market rate unit apartment complex going up in Saco, and The Lincoln Lofts redevelopment in Biddeford is nearing completion with 148 market rate units. Inclusionary zoning may be the catalyst that spreads the previously Portland-based development across the state.

10+ UNIT PROJECTS APPLIED FOR PRE REFERENDUM

PROPERTY	UNITS
1844 Forest Avenue	17
52 Hanover Street	171
200 Federal Street	263
387 Commercial Street	64
144 State Street	165
1006 Congress Street	16
200 Valley Street	60
TOTAL	**756**

10+ UNIT PROJECTS APPLIED FOR POST REFERENDUM

PROPERTY	UNITS
45 Forest Avenue	81
Winchester Woods	48
392 St. John Street	10
TOTAL	**139**

PHOTO: *Bronson Guimond*

DEVELOPMENT SPOTLIGHT: BEYOND THE PENINSULA

BRICE O'CONNOR *Associate Broker*

These days, when people think of Maine, they often think of Portland. As Maine's largest city and business hub, Portland is celebrated for its award-winning restaurants and brewery scene, historic Old Port, and working waterfront. So much so, that robust real estate demand over the past decade has left limited development sites on the Portland peninsula. With record-high price points and recent legislative challenges, many investors and developers are finding and creating success with projects outside the city. Developments such as Rock Row, The Downs, Biddeford's Mill District, and the Falmouth Shopping Center are proving that the Maine Market and its potential for development are deeper than just Portland.

1 ROCK ROW

Located at the former Pike Industries quarry, Rock Row is a 110-acre, mixed-use development on the Westbrook-Portland line, abutting Interstate I-95. With the opening of retailers such as Market Basket, Chick-fil-A, and REI, Phase One of the project is nearly complete and the developers are wasting no time breaking ground on subsequent phases. Anchored by New England Cancer Specialists and Dana Farber, the 200,000± SF medical campus is under construction, with a target completion date of 2023, and the developers recently unveiled plans for a $75 million, 8,200-person convention center, set to break ground in 2023. Rock Row will also feature Maine's first cross-laminated timber (CLT) office tower, offering 200,000± SF of unmatched Class A office space. Topped with residential units, hotels, a food hall, as well as other retailers and amenities, Rock Row is the center of a new urban community and economic hub, transforming Westbrook and Greater Portland.

2 THE DOWNS

Formerly the home of the historic Scarborough Downs harness racing track, this 524-acre, mixed-use redevelopment, rebranded as The Downs, has come out of the gate strong. The Innovation District, the project's 154-acre, 54-lot commercial subdivision completely sold out within two years of its launch—way ahead of its projected 10-year timeline. The subdivision's early success was capped by IDEXX Laboratories purchasing the last available 25 acres of commercial lots to expand their Maine operations. Additionally, The Downs has seen early traction with its residential units, completing and selling out or leasing all 126 units in Phase One, and construction and marketing of Phase Two are well underway. The developers are currently working through master plans for the town center, which will tie the development together and create an epicenter for the Town of Scarborough with a mix of commercial, residential, and entertainment-based facilities.

3 BIDDEFORD MILL DISTRICT

Located on the Saco River just 20 minutes south of Portland, the once bustling mill town of Biddeford is seeing a revitalization, spearheaded by the redevelopment of textile mills that have sat vacant for years. The Mill District redevelopment began several years ago and has recently picked up steam, receiving interest from a range of developers. According to the City of Biddeford's website, the Mill District has seen a 59% increase in the redevelopment of formerly vacant space over the past five years. Notable projects include:

- **Pepperell Mill Campus**: A mixed-use redevelopment of 16 mill buildings on 17 acres, totaling over one million square feet.
- **The Lincoln Mill**: A mixed-use redevelopment of a former mill into 143 loft apartments, a 33-room boutique hotel, a restaurant, and a fitness facility.
- **Riverdam**: A former textile mill redeveloped into 71 apartments, a restaurant, a brewery, and a distillery.
- **Pearl Street Riverfront District**: A proposed ground-up development, creating a new mixed-use neighborhood.

- **Saco-Lowell Mill**: A mill redeveloped into 100 apartments and 300 self-storage units. Is this planned, finished or under construction?

4 FALMOUTH SHOPPING CENTER

On a slightly smaller scale, the owners of the Falmouth Shopping Center are seeing success with the construction of two new mixed-use buildings. Anchored by Shaw's and Planet Fitness, the predominantly-retail center is located on US Route One in Falmouth's commercial center. On out-parcels of the shopping center, the owners are developing two 25,000± SF mixed-use buildings that will feature retail on the first floor and office space on the top three floors. Being built on spec, it is noteworthy that in a time of limited leasing demand in the office market, over half of the office space and nearly all of the retail space is already leased or under contract.

Many of these projects have been in planning for several years, and we are beginning to see the creation and evolution of vibrant communities through the transformation of underutilized properties. A rising tide lifts all boats, and the appeal of Maine's work-life balance is helping to lift all Maine communities. The strong market reaction to the early phases highlights the fact that for developers, investors, business owners, and residents, there is more to Maine than just Portland. With a creative vision, a strategic approach, and looking outside the box (or city limits), there are opportunities in Maine – whatever your personal, business, or investment goals may be.

THE RISE OF MAINE'S STARTUP COMMUNITY

SAMANTHA MARINKO *Associate*

The Maine business world is made up of many diverse industries—animal health, beer, seafood, agriculture, wellness, technology—we are a melting pot of innovation. All of these companies have something in common: they began as an idea. But ideas do not just turn into successful companies on their own. What makes the Maine startup community so robust?

"The most important thing is the entrepreneur behind the company," says Greg Boulos. "Without the leader's vision and focus on making his or her dream a reality, nothing else really matters." Greg has worked with and witnessed the evolution of some of the most successful startups in Maine. "It's hard to believe, but IDEXX was a startup at one point," he said. "It was all the vision of David Shaw, who is a serial entrepreneur." Shipyard Brewing Company was born of the same entrepreneurial spirit. "I remember Fred Forsley bringing kegs of beer around to bars, hoping they would take on his product and provide tap space. Besides having a great product, Shipyard was and is successful because of Fred's vision, hustle, and focus."

The number of successful young companies growing and staying in Maine has earned the state a reputation as a stellar location to start a business. But what attracts entrepreneurs to Maine? For one thing, the state offers abundant new business resources: Startup Maine has a 29-page guide full of resources for entrepreneurs. From local chambers of commerce, to the Maine Women's Network, to SCORE Maine—if you have the idea, there is an organization here that can offer guidance and steer you towards success.

Amy VanHaren, founder of Pumpspotting.com, a support platform for breastfeeding women, utilized resources provided by SCORE when launching her startup. VanHaren, who describes Maine as forward-thinking and deeply supportive of innovation, was able to leverage resources that encourage business growth and development. Pumpspotting has since turned into a national success.

Resources aside, quality of life is one of Maine's biggest attractions. Startups have had great luck recruiting in recent years because young people want to live here. The food, the mountains, the coast – reasons abound, and the word is officially out.

The technologies developed in startup businesses can go on to flourish beyond their humble origins. Take the story of Binax, started by entrepreneurs Roger Piasio and Myron Hamer. They sold their company to Alere Inc. who sold it to Abbott Laboratories. Today, Abbott's test for COVID-19, used throughout the world, is based on Roger and Myron's quick test concept for malaria and other diseases. With technology developed by Binax and translated into Abbott's current use, the business has grown to occupy a footprint of over 250,000± SF of industrial, lab and office space in Maine. That huge footprint is proof of the success of a Maine startup.

Another noteworthy evolution is Putney, started by Jean Hoffman in 2006 and sold to Dechra Pharmaceuticals in 2016 for $200 million. Both Abbott and Dechra still have a significant presence in Maine. Two of Maine's biggest employers, IDEXX and Covetrus, were once Maine-based startups. Covetrus began as Vets First Choice in an office of only a few thousand square feet, eventually growing to require a brand new 170,000± SF facility, the largest new office building in Maine in over two decades.

Maine's financial community is very supportive of entrepreneurs. Local banks and credit unions are accustomed to tailoring their approach to accommodate the particular needs of startups. Nonprofits like Coastal Enterprises, the Finance Authority of Maine, and the Maine Community Foundation specialize in loans, grants, and investments in small and medium-sized businesses. Events like

Greenlight Maine and Launchpad are also steppingstones available to Maine startups.

“The state is incredibly invested in the success of businesses who choose to make their home here. From the Maine Technology Institute to the Maine Seed Tax Credit program to the The Roux Institute, there are countless organizations and resources specifically designed to support startups on their journey,” said Joey Spitz, Chief Operating Officer of KinoTek, a startup that provides cutting-edge movement analysis software. Joey and the KinoTek team were the winners of the 2019 Greenlight Maine Collegiate Challenge and currently have an office in Portland’s Monument Square. “Words like community get tossed around a lot,” Spitz added, “but in Maine they actually mean something. I wouldn’t want to build a business anywhere else.” KinoTek nearly tripled the size of their office within their first year.

In addition to the resources, the funding opportunities, and the idea-makers themselves, the people in Maine are an invaluable part of the success of so many of the startups that have turned into prosperous businesses. “There is no better resource than Mainers themselves,” said Spitz. “I continue to be impressed by people’s willingness to share their knowledge, make an introduction, and lend a helping hand. There are countless people—complete strangers—who have taken time from their busy days to help our business without expecting anything in return. I have lived in cities across the country, but I have never been a part of a business community that genuinely supports each other like Maine.”

Startups are flourishing in our state, and even as many expand or are acquired by larger companies, they stick around. With so many great reasons to do business in Maine, I foresee continued success in the startup community. What rock star company of the future will get its start here in 2022? Time will tell.

PHOTOS *Renderings of Covetrus’s future office building, currently under construction. Renderings provided by Archetype Architects.*

ABOUT US

The Boulos Company is a commercial real estate firm dedicated to serving owners, investors, and tenants, blending Maine and New Hampshire market knowledge with a global network.

We offer a full array of services including leasing and sales; property, facilities, project, and investment management; valuation, appraisal, research, investment strategy, and consulting.

In addition to our depth of services, we also offer a deep bench of qualified, professional agents. Our partners and experienced brokers are seasoned experts in every commercial real estate sector, from office and retail to industrial, investment, and multi-unit property; and our systemized, in-depth training program ensures that their knowledge is shared with each new generation.

All of this reach, experience, expertise, and depth adds up to market leadership, and for clients, that means success. When it comes to New Hampshire and Maine commercial real estate opportunities, Boulos brings you more.

NOTES + CREDITS

Information contained herein is researched and provided by our in-house staff of administrative assistants, associates, associate brokers, and brokers.

We have included, to the best of our knowledge, all Class A & Class B office buildings in the Greater Portland area. Please feel free to contact us if we have inadvertently missed one.

Survey data collected is current as of 12/1/2021. Rents are shown as modified gross and defined as all expenses included, except electricity for lights and plugs, tenant's janitorial, and parking. Rents not quoted as modified gross were converted by the addition of an estimated $1.50 for HVAC and common area maintenance expenses as reported by owner.

Retail space is not included in this Survey.

Net Absorption measures the total amount of SF leased over a period of time minus space vacated during the same period.

Rental rates outlined in this Survey reflect rates for direct lease availabilities. When a range of rental rates are available, the prevailing rate is reported. Only direct lease rates are quoted in cases when direct and sublease space is available. When only sublease space is available, no rate is quoted. Subleased spaces that were occupied as of 12/1/2021 were not included as part of this Survey.

Definitions of Class A & B office buildings vary between markets. We define Class A office buildings as those that are investment-grade properties that feature a unique design with immediate access to parking. They must be ADA-compliant and benefit from highly professional property management. Class B office buildings are considered to offer utilitarian space without special amenities, are of ordinary design, except for historic, renovated buildings and feature good maintenance with all floors handicapped accessible.

Please note that outside the context of this report, the Greater Portland market uses many definitions and thus any building noted herein may, as a matter of opinion, fall into a different category in the open marketplace.

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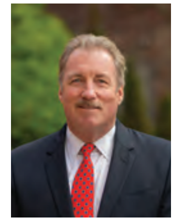

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ONE WAY
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BEAL'S ICE CREAM
NO PARKING ANY TIME